

# CALIFORNIA FRANCHISE TAX BOARD

Legal Ruling No. 146

June 25, 1958

## BOND PREMIUM: AMORTIZATION

### Syllabus:

When the maturity value of bonds, which were acquired by bequest or inheritance, is less than the taxpayer's basis, the excess is an "amortizable bond premium" within the meaning of Section 17218 of the Personal Income Tax Law.

Taxpayer acquired tax exempt bonds upon the death of his wife. The fair market value of the bonds at the date of her death, which is the taxpayer's basis, is in excess of the maturity value. The bonds matured and the taxpayer claims a capital loss of the difference between his basis and the maturity value. Advice is requested where bonds are acquired by other than actual purchase and where the taxpayer's basis is greater than maturity value, whether such excess is "amortizable bond premium" within the meaning of Section 17218 of the Personal Income Tax Law.

Section 17218 and Regulations 17318.05 -- 17138.7(b) defines bond premium as the excess of the basis for determining loss over maturity value. Since basis for determining loss may be established by a method other than by actual purchase, it is evident that the definition was never intended to be limited to premiums arising only through purchase. Since other methods of acquisition were contemplated as creating "amortized bond premiums", the excess over maturity value of bonds acquired by bequest or inheritance is within the meaning of the Section. Therefore, as the bonds were tax exempt and the basis was greater than maturity value, the taxpayer must reduce his basis by the amount of applicable amortization.